URUGUAY

SEPTEMBER 2023

COUNTRY REPORT

URUGUAY
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URUGUAY
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Brazil
Artigas
Rivera
Salto
Paysandú
Rio Negro
Merin Lake
Fray Beritos
Mercedes
URUGUAY
Melo
Treinta
y Tres
Neuva Palmira
Colonia
San José
Minas
Montevideo
Las Piedras
Piriápolis
Punta del Este
Atlantic Ocean
Argentina

KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	Center-Right Coalition 50% (65%)
FIVE-YEAR	Center-Right Coalition 50%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	**FINANCIAL TRANSFER**	**DIRECT INVESTMENT**	**EXPORT MARKET**
18-MONTH	Low	B	A- (A)	B+
FIVE-YEAR	Low	B	A-	B

( ) Indicates change in rating
* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	**INFLATION (%)**	**CURRENT ACCOUNT ($bn)**
2018-2022(AVG)	1.0	8.4	-0.83
2023(F)	1.0	6.2	-2.70
2024-2028(F)	2.6	5.1	-1.90

POLARIZING REFORMS

Now in the fourth year of his five-year term, President Luis Lacalle Pou has racked up an impressive record of political accomplishments, despite the inconsistent cooperation of the junior partners in the governing Multicolor Alliance, a coalition made up of Lacalle's center-right PN, the PC, and the far-right populist CA. However, his administration's initiatives lack broad popularity and have had a polarizing effect on the electorate, which together with economic difficulties stemming from a severe drought creates some uncertainty around the PN's prospects for retaining control of the presidency beyond next year's election, at which Lacalle will not be eligible to stand for another term.

Lacalle scored another major legislative success (likely his final one) in April 2023, with the passage of reforms designed to ensure the long-term financial stability of the pension system. As approved, the pension reform will raise the official retirement age from 60 to 65 and a minimum of 30 years of contributions will be required to qualify for benefits. Other provisions include the elimination of "special pensions" via the gradual harmonization of contributions and benefits across occupations, and the calculation of the base benefit payment using employees' 20 best years.

The fiscal impact will be significant but will not be felt until the initiation of increases in the retirement age beginning in 2034. Moreover, the positive effect on costs will be diluted by concessions made by Lacalle to secure the backing of the PC and the CA.

The various tweaks may have helped to dampen public opposition to the reforms, which was running above 50% according to a Cifra poll conducted in late March. However, the main labor federation has already begun to lay the ground for a referendum on repeal of the social security reforms, which could be on the ballot at the general election in October 2024, a convergence that has the potential to affect the outcome on all fronts.

Already apparent signs of pre-election disunity within the Multicolor Alliance will limit Lacalle's ability to make any major legislative moves that might bolster the PN's position ahead of the October 2024 vote. The polling trend suggests that as in 2019, the FA's presidential candidate will finish first, but fall short of the outright majority required to avoid a runoff against the second-place finisher (most likely the nominee of the PN), who will need to negotiate with the PC and the CA to obtain the votes needed to win the presidency and have any chance of claiming majority support in the legislature.

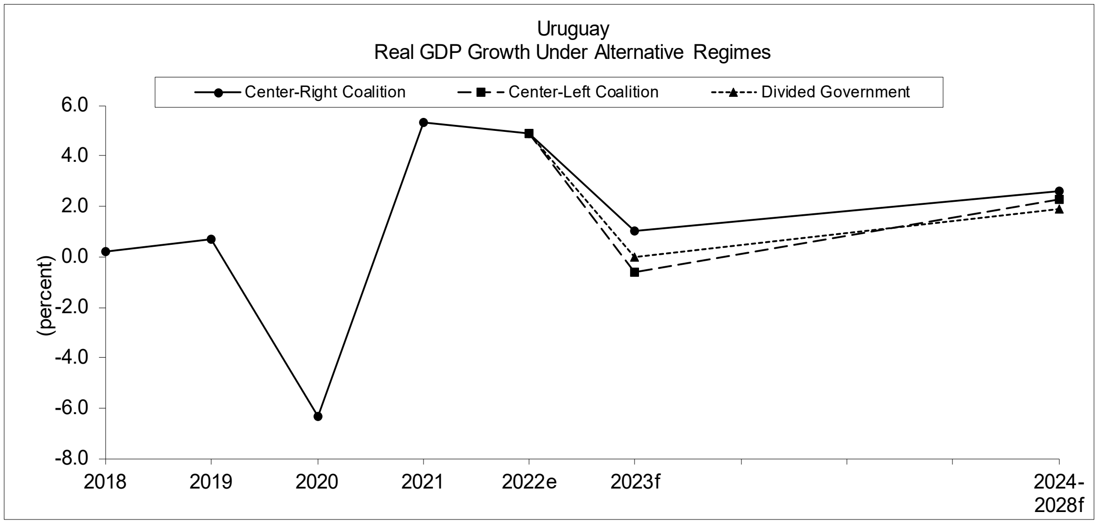
Robust activity in construction and the services sector helped to pull the economy out of recession in the first quarter of 2023, but GDP contracted—in both nominal (quarter-on-quarter) and real (year-on-year) terms—in April-June 2023, reflecting the choking effect of high interest rates and the continuing drought-related damage to agricultural output and the domestic power supply. The steady easing of inflation has created room for interest-rate cuts that will invigorate economic activity in the second half of 2023, and recent rains have brightened the prospects for relief from the drought, although water levels remain far below capacity. Although the economy will return to growth in the coming quarters, annual real expansion will be held to just 1%.

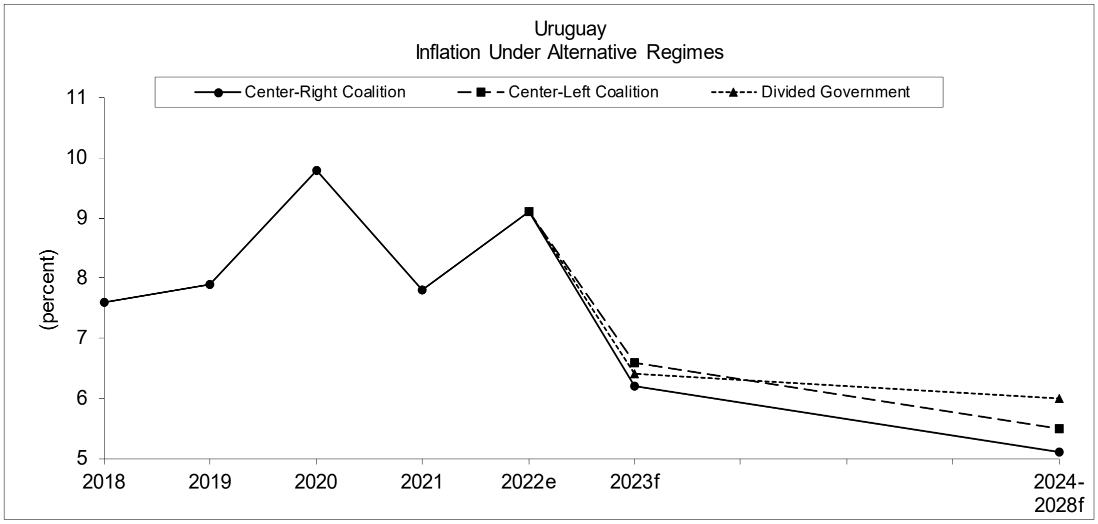
ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES									
	Center-Right Coalition			Center-Left Coalition			Divided Government		
	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)
2023	1.0	6.2	-2.70	-0.6	6.6	-3.10	0.0	6.4	-2.85
2024-2028	2.6	5.1	-1.90	2.3	5.5	-1.70	1.9	6.0	-2.50

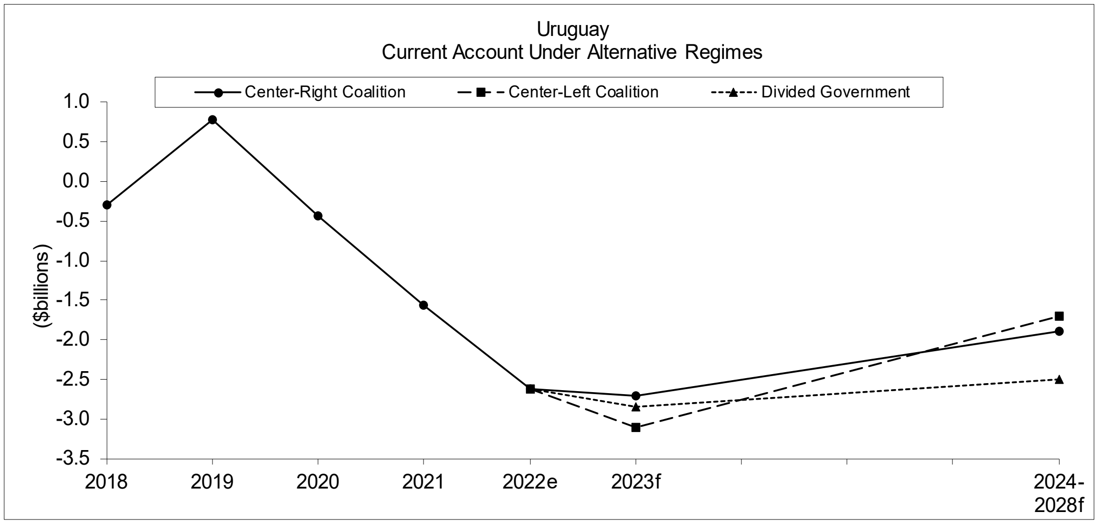
REGIME, BUSINESS & INVESTMENT FORECASTS

SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		Center-Right Coalition 50%	Divided Government 45%	Broad Coalition 5%
RISK FACTORS	**CURRENT**			
Turmoil	Low	Same	SLIGHTLY MORE	SLIGHTLY MORE
Investment				
Equity	Moderate	SLIGHTLY LESS	Same	Same
Operations	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY MORE
Taxation	Low	Same	Same	SLIGHTLY MORE
Repatriation	Low	Same	Same	Same
Exchange	Low	Same	Same	Same
Trade				
Tariffs	Moderate	Same	Same	Same
Other Barriers	Low	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY MORE
Payment Delays	Moderate	Same	Same	Same
Economic Policy				
Expansion	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY MORE
Labor Costs	Moderate	Same	Same	SLIGHTLY MORE
Foreign Debt	High	Same	SLIGHTLY MORE	SLIGHTLY MORE
SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		Center-Right Coalition 50%	Center-Left Coalition 40%	Divided Government 10%
RISK FACTORS	**BASE**			
Turmoil	Low	Same	Same	SLIGHTLY MORE
Restrictions				
Investment	Moderate	LESS	Same	Same
Trade	Moderate	SLIGHTLY LESS	SLIGHTLY LESS	SLIGHTLY LESS
Economic Problems				
Domestic	High	SLIGHTLY LESS	Same	Same
International	Very High	LESS	SLIGHTLY LESS	Same

* When present, indicates forecast of a new regime


Uruguay
Real GDP Growth Under Alternative Regimes
Center-Right Coalition
Center-Left Coalition
Divided Government
(percent)
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
-8.0
2018
2019
2020
2021
2022e
2023f
2024-2028f


Uruguay
Inflation Under Alternative Regimes
Center-Right Coalition
Center-Left Coalition
Divided Government
(percent)
11
10
9
8
7
6
5
2018
2019
2020
2021
2022e
2023f
2024-2028f


Uruguay
Current Account Under Alternative Regimes
Center-Right Coalition
Center-Left Coalition
Divided Government
($billions)
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
-3.0
-3.5
2018
2019
2020
2021
2022e
2023f
2024-2028f

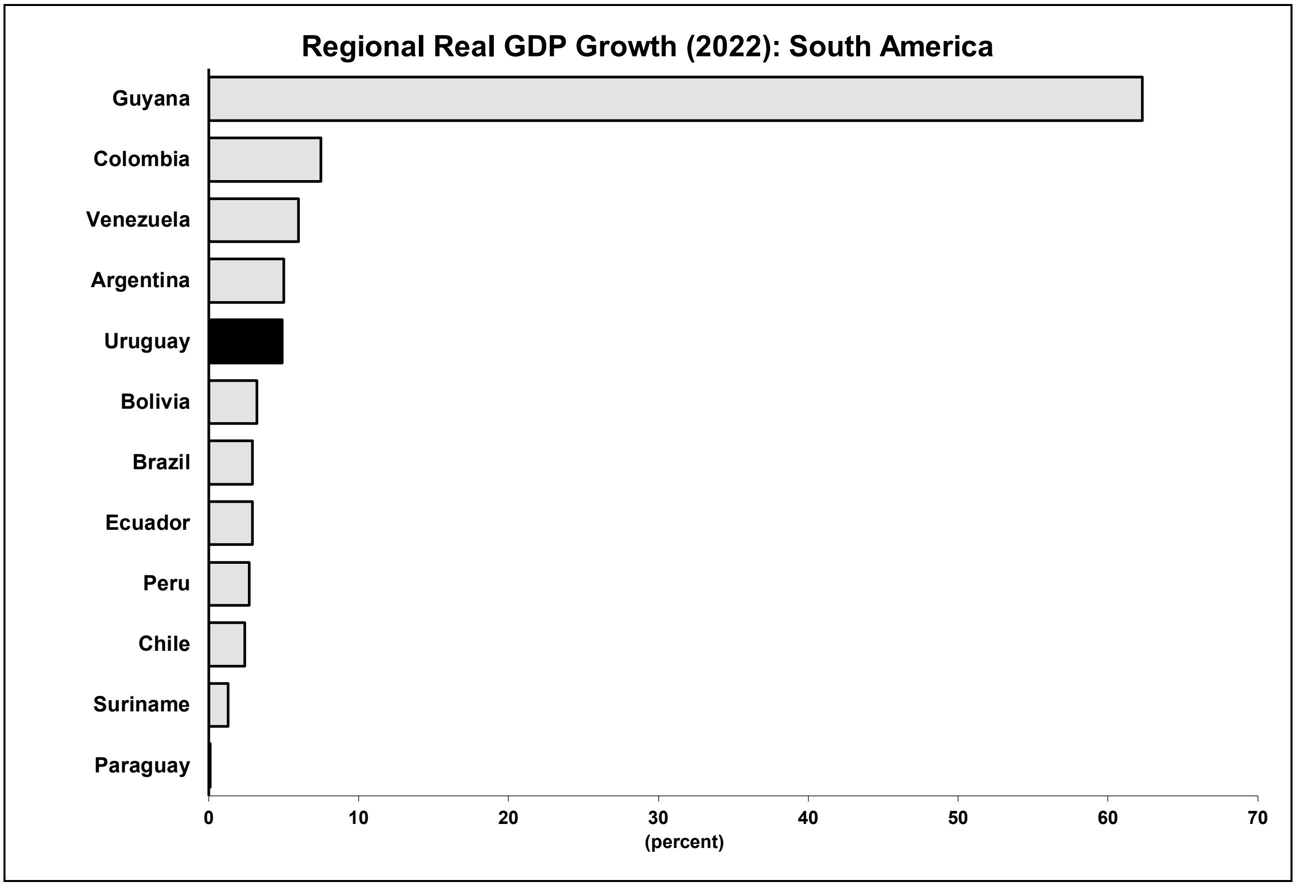
Uruguay
Econometric Data

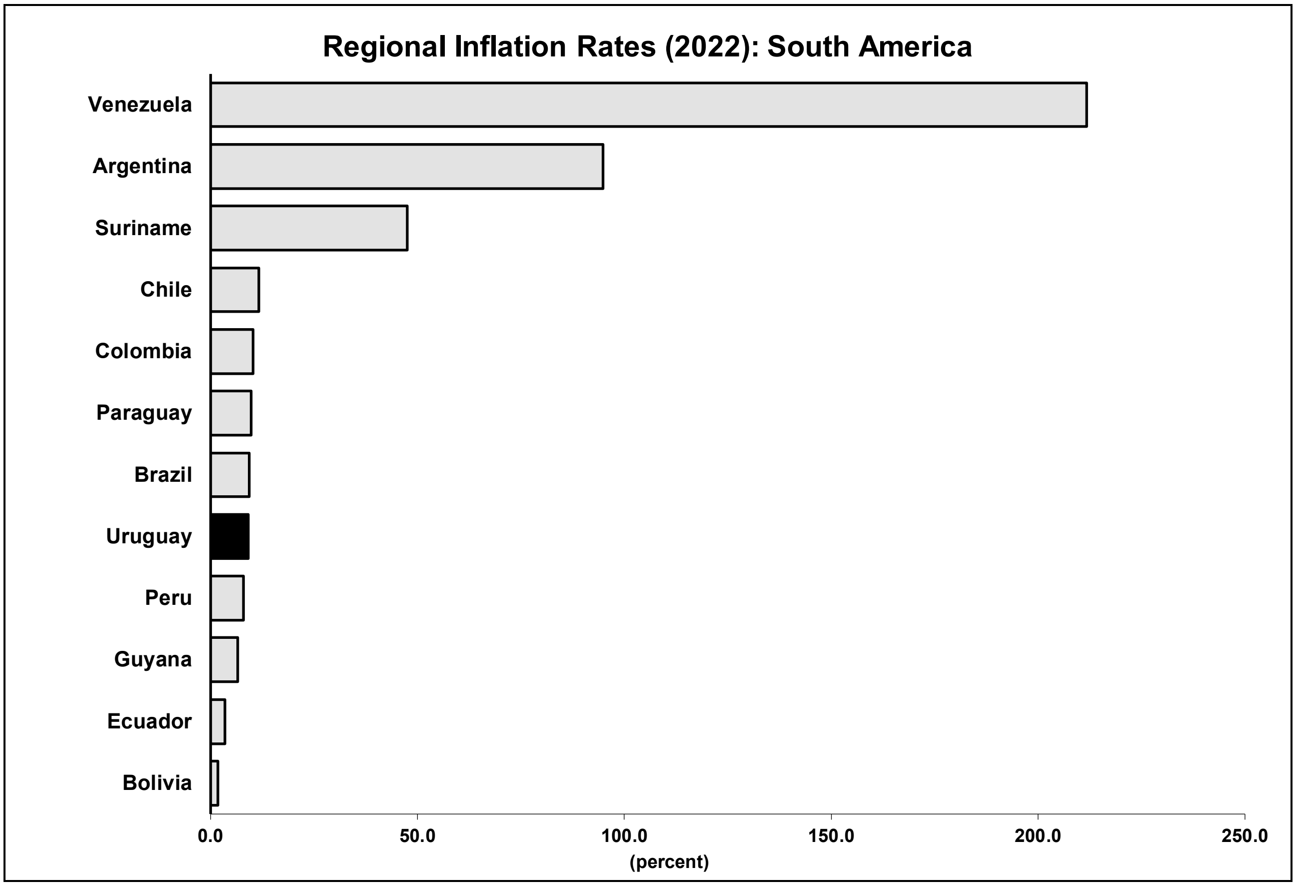
	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
Domestic Economic Indicators							
GDP (Nominal, $bn)	61.13	63.87	62.76	62.28	57.98	57.54	65.07
Per Capita GDP ($)	17949	18511	18568	18372	16904	16874	19026
Real GDP Growth Rate (%)	2.3	1.0	4.6	3.2	0.4	1.7	1.7
Inflation Rate (%)	8.4	8.4	8.6	8.9	8.7	9.6	6.2
Capital Investment ($bn)	10.69	10.44	11.55	11.27	10.32	9.75	10.57
Capital Investment/GDP (%)	17.5	16.3	18.4	18.1	17.8	16.9	16.2
Budget Revenues ($bn)	16.51	17.33	17.07	16.57	15.42	15.59	17.89
Budget Revenues/GDP (%)	27.0	27.1	27.2	26.6	26.6	27.1	27.5
Budget Expenditures ($bn)	17.93	19.51	18.20	18.19	16.52	17.15	19.59
Budget Expenditures/GDP (%)	29.3	30.7	29.0	29.2	28.5	29.8	30.1
Budget Balance ($bn)	-1.42	-2.18	-1.13	-1.62	-1.10	-1.56	-1.70
Budget Balance/GDP (%)	-2.3	-3.5	-1.8	-2.6	-1.9	-2.7	-2.6
Money Supply (M1, $bn)	4.98	4.91	5.60	5.18	4.63	4.38	5.09
Change in Real Wages (%)	1.7	-1.0	4.3	1.9	-0.4	-1.7	4.3
Unemployment Rate (%)	7.3	8.9	6.5	6.6	7.5	7.8	7.9
International Economic Indicators							
Foreign Direct Investment ($bn)	1.98	3.15	0.99	4.09	2.67	-0.52	2.69
Forex Reserves ($bn)	15.30	15.09	15.72	17.02	15.16	13.05	15.56
Gross Reserves (ex gold, $bn)	15.78	15.67	16.27	17.55	15.63	13.47	15.96
Gold Reserves ($bn)	0.00	0.01	0.01	0.01	0.00	0.00	0.00
Gross reserves (inc gold, $bn)	15.78	15.68	16.28	17.56	15.63	13.47	15.96
Total Foreign Debt ($bn)	41.31	47.93	38.56	41.39	43.83	40.45	42.32
Total Foreign Debt/GDP (%)	67.8	75.6	61.4	66.5	75.6	70.3	65.0
Debt Service ($bn)	3.37	2.30	4.03	4.23	4.08	1.83	2.70
Debt Service/XGS (%)	17.8	11.8	19.9	21.0	22.8	10.9	14.4
Current Account ($bn)	-0.70	-0.83	-2.01	-1.84	-0.15	0.47	0.01
Current Account/GDP (%)	-1.1	-1.3	-3.2	-3.0	-0.3	0.8	0.0
Current Account/XGS (%)	-3.4	-3.7	-9.9	-9.1	-0.8	2.8	0.1
Exports ($bn)	12.07	13.33	13.27	13.91	11.43	10.61	11.12
Imports ($bn)	10.45	10.16	12.39	12.04	10.10	8.56	9.17
Trade Balance ($bn)	1.62	3.17	0.88	1.87	1.33	2.05	1.95
Exports of Services ($bn)	5.18	4.75	5.12	4.97	5.19	4.90	5.72
Income, credit ($bn)	1.22	1.31	1.56	0.97	0.97	1.02	1.57
Transfers, credit ($bn)	0.31	0.37	0.31	0.30	0.30	0.30	0.35
Exports G&S ($bn)	18.78	19.76	20.26	20.15	17.89	16.83	18.76
Liabilities ($bn)	1.52	1.00	1.94	1.97	1.46	1.08	1.17
Net Reserves ($bn)	14.26	14.67	14.34	15.59	14.17	12.39	14.79
Liquidity (months import cover)	16.6	18.0	13.9	15.5	16.8	17.4	19.4
Currency Exchange Rate	25.932	37.938	20.396	23.206	27.278	30.133	28.647
Currency Change (%)	-6.4	-6.5	-0.8	-12.1	-14.9	-9.5	5.2
Social Indicators							
Population (million)	3.41	3.45	3.38	3.39	3.43	3.41	3.42
Population Growth (%)	0.3	0.3	0.3	0.3	1.2	-0.6	0.3
Infant Deaths/1000	7	6	8	8	7	7	7
Persons under Age 15 (%)	36	20	21	21	21	96	20
Urban Population (%)	96	96	95	96	96	95	96
Urban Growth (%)	0.5	0.3	0.3	1.4	0.3	0.3	0.3
Literacy % pop.	98	99	98	99	99	98	98
Agricultural Work Force (%)	9	9	9	9	9	9	9
Industry-Commerce Work Force (%)	21	20	22	21	21	20	20
Services Work Force (%)	70	71	69	70	70	71	71
Unionized Work Force (%)	12	12	12	12	12	12	12
Energy - total consumption (10^{15} Btu)	0.22	0.22	0.21	0.22	0.22	0.22	0.22
Energy - consumption/head (10^{9} Btu)	0.06	0.06	0.06	0.06	0.06	0.06	0.06

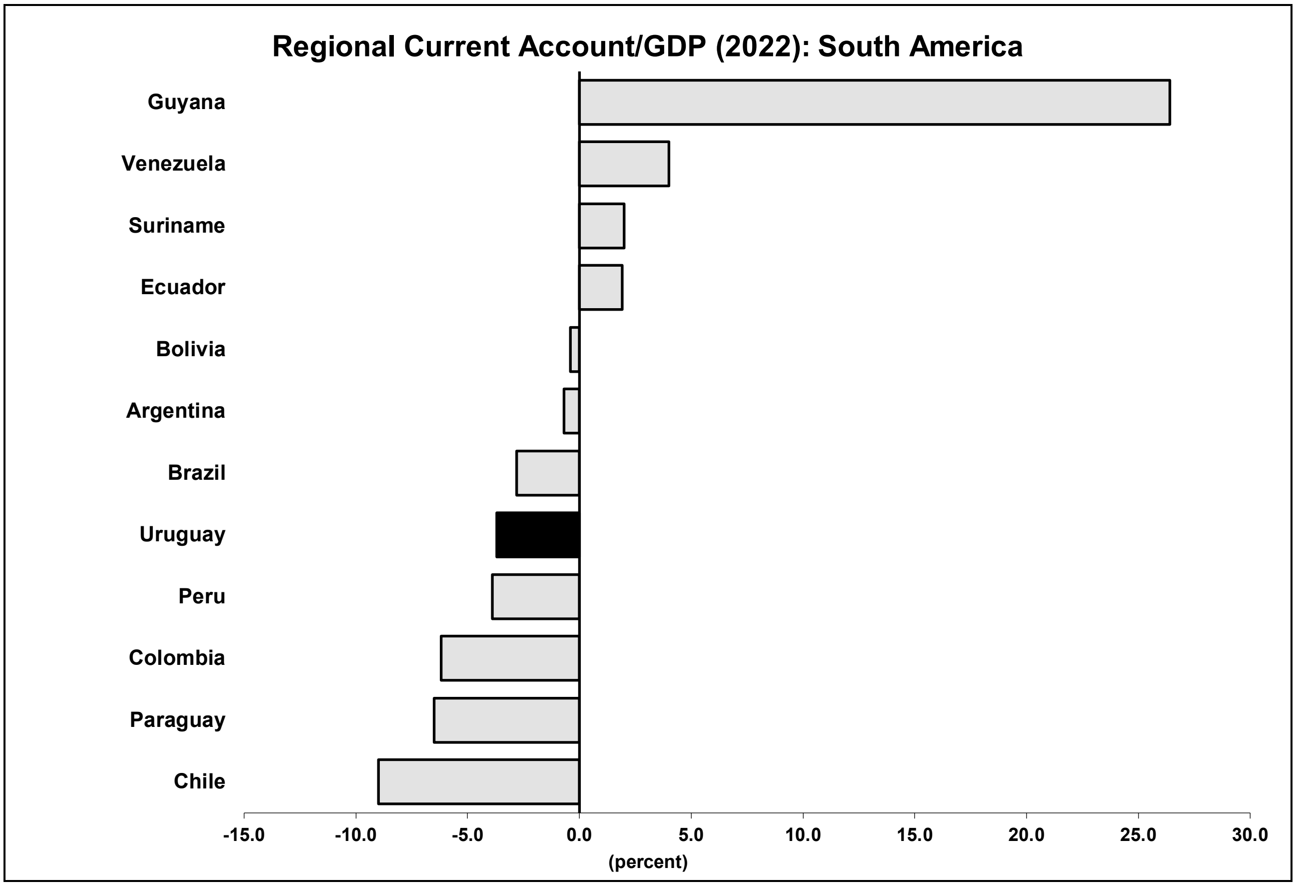
Uruguay
Econometric Data

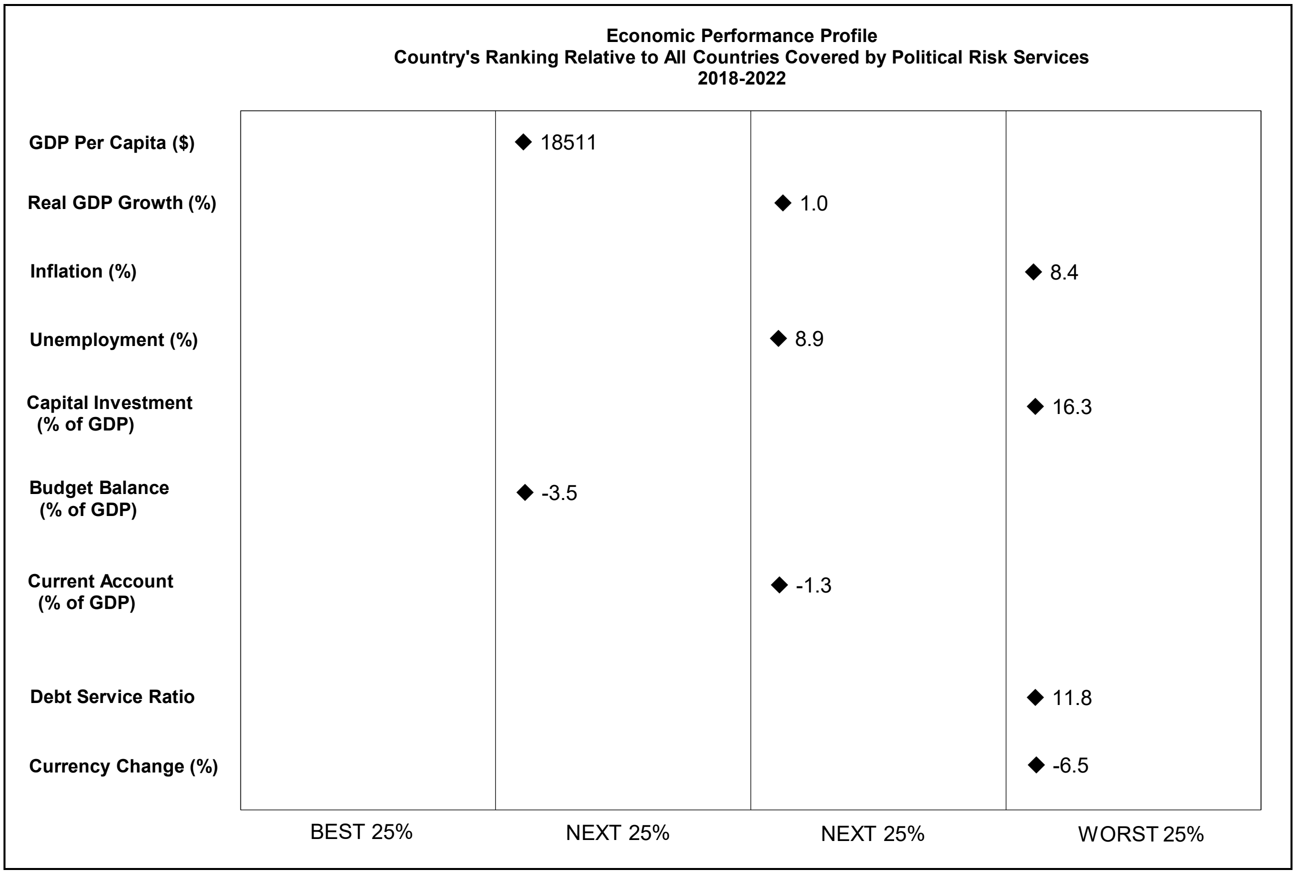
	2013-2017 Average	2018-2022 Average	2018	2019	2020	2021	2022
Domestic Economic Indicators							
GDP (Nominal, $bn)	61.13	63.87	65.26	67.83	53.70	61.40	71.14
Per Capita GDP ($)	17949	18511	19026	19718	15565	17746	20501
Real GDP Growth Rate (%)	2.3	1.0	0.2	0.7	-6.3	5.3	4.9
Inflation Rate (%)	8.4	8.4	7.6	7.9	9.8	7.8	9.1
Capital Investment ($bn)	10.69	10.44	9.67	10.03	8.61	10.78	13.13
Capital Investment/GDP (%)	17.5	16.3	14.8	14.8	16.0	17.6	18.5
Budget Revenues ($bn)	16.51	17.33	18.23	18.39	14.51	16.93	18.58
Budget Revenues/GDP (%)	27.0	27.1	27.9	27.1	27.0	27.6	26.1
Budget Expenditures ($bn)	17.93	19.51	19.48	20.27	17.25	19.82	20.72
Budget Expenditures/GDP (%)	29.3	30.7	29.9	29.9	32.1	32.3	29.1
Budget Balance ($bn)	-1.42	-2.18	-1.25	-1.88	-2.74	-2.89	-2.14
Budget Balance/GDP (%)	-2.3	-3.5	-1.9	-2.8	-5.1	-4.7	-3.0
Money Supply (M1, $bn)	4.98	4.91	5.06	4.62	4.49	5.04	5.33
Change in Real Wages (%)	1.7	-1.0	1.3	-2.1	-5.9	2.1	-0.6
Unemployment Rate (%)	7.3	8.9	8.3	8.9	10.4	9.3	7.8
International Economic Indicators							
Foreign Direct Investment ($bn)	1.98	3.15	1.73	1.47	0.53	3.43	8.59
Forex Reserves ($bn)	15.30	15.09	15.58	14.08	15.75	15.90	14.14
Gross Reserves (ex gold, $bn)	15.78	15.67	15.56	14.51	16.21	16.95	15.13
Gold Reserves ($bn)	0.00	0.01	0.00	0.00	0.01	0.01	0.01
Gross reserves (inc gold, $bn)	15.78	15.68	15.56	14.51	16.22	16.96	15.14
Total Foreign Debt ($bn)	41.31	47.93	43.04	45.20	47.09	48.76	55.54
Total Foreign Debt/GDP (%)	67.8	75.6	66.0	66.6	87.7	79.4	78.1
Debt Service ($bn)	3.37	2.30	2.54	2.34	1.92	2.44	2.25
Debt Service/XGS (%)	17.8	11.8	13.2	12.2	12.9	11.6	9.2
Current Account ($bn)	-0.70	-0.83	-0.30	0.77	-0.44	-1.56	-2.62
Current Account/GDP (%)	-1.1	-1.3	-0.5	1.1	-0.8	-2.5	-3.7
Current Account/XGS (%)	-3.4	-3.7	-1.6	4.0	-3.0	-7.4	-10.7
Exports ($bn)	12.07	13.33	11.78	11.87	10.13	15.83	17.06
Imports ($bn)	10.45	10.16	9.39	8.75	7.90	11.21	13.56
Trade Balance ($bn)	1.62	3.17	2.39	3.12	2.23	4.62	3.50
Exports of Services ($bn)	5.18	4.75	5.47	5.36	3.72	3.70	5.50
Income, credit ($bn)	1.22	1.31	1.66	1.57	0.73	1.10	1.48
Transfers, credit ($bn)	0.31	0.37	0.36	0.34	0.33	0.38	0.45
Exports G&S ($bn)	18.78	19.76	19.27	19.14	14.91	21.01	24.49
Liabilities ($bn)	1.52	1.00	0.87	0.86	0.95	1.24	1.10
Net Reserves ($bn)	14.26	14.67	14.69	13.65	15.27	15.72	14.04
Liquidity (months import cover)	16.6	18.0	18.8	18.7	23.2	16.8	12.4
Currency Exchange Rate	25.932	37.938	30.700	32.250	41.988	43.564	41.190
Currency Change (%)	-6.4	-6.5	-6.7	-4.8	-23.2	-3.6	5.8
Social Indicators							
Population (million)	3.41	3.45	3.43	3.44	3.45	3.46	3.47
Population Growth (%)	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Infant Deaths/1000	7	6	6	6	6	5	5
Persons under Age 15 (%)	36	20	20	20	20	19	19
Urban Population (%)	96	96	96	96	96	96	96
Urban Growth (%)	0.5	0.3	0.3	0.3	0.3	0.3	0.3
Literacy % pop.	98	99	99	99	99	99	99
Agricultural Work Force (%)	9	9	9	9	9	9	9
Industry-Commerce Work Force (%)	21	20	20	20	20	20	20
Services Work Force (%)	70	71	71	71	71	71	71
Unionized Work Force (%)	12	12	12	12	12	12	12
Energy - total consumption (10^{15} Btu)	0.22	0.22	0.22	0.23	0.21	0.21	0.21
Energy - consumption/head (10^{9} Btu)	0.06	0.06	0.06	0.06	0.06	0.06	0.06

INTRA-REGIONAL COMPARISONS






Regional Current Account/GDP (2022): South America
Guyana
Venezuela
Suriname
Ecuador
Bolivia
Argentina
Brazil
Uruguay
Peru
Colombia
Paraguay
Chile
-15.0
-10.0
-5.0
0.0
5.0
10.0
15.0
20.0
25.0
30.0
(percent)


Economic Performance Profile
Country's Ranking Relative to All Countries Covered by Political Risk Services
2018-2022
GDP Per Capita ($)
18511
Real GDP Growth (%)
1.0
Inflation (%)
8.4
Unemployment (%)
8.9
Capital Investment (% of GDP)
16.3
Budget Balance (% of GDP)
-3.5
Current Account (% of GDP)
-1.3
Debt Service Ratio
11.8
Currency Change (%)
-6.5
BEST 25%
NEXT 25%
NEXT 25%
WORST 25%

GEOPOLITICAL & ECONOMIC ANALYSIS

PENSION REFORM APPROVED

Now in the fourth year of his five-year term, President Luis Lacalle Pou has racked up an impressive record of political accomplishments, despite the inconsistent cooperation of the junior partners in the governing Multicolor Alliance, a coalition made up of Lacalle's center-right National Party (PN, or Blancos), the centrist Colorado Party (PC), and the far-right populist Open Cabildo (CA). However, his administration's initiatives lack broad popularity and have had a polarizing effect on the electorate, which together with economic difficulties stemming from a severe drought creates some uncertainty around the PN's prospects for retaining control of the presidency beyond next year's election, at which Lacalle will not be eligible to stand for another term.

A package of 476 reform measures included in an omnibus Law of Urgent Consideration (LUC) was fast-tracked through the National Assembly in June 2020, and a joint effort by the left-leaning Broad Front (FA) and the Interunion Plenary of Workers–National Convention of Workers (PIT-CNT) to repeal 135 of the most controversial provisions by means of a popular referendum was defeated in March 2022, albeit by a narrow margin that highlighted significant public opposition to the reforms. Lacalle scored another major legislative success in April 20023, with the passage of reforms designed to ensure the long-term financial stability of the pension system, which Lacalle had stated was his top priority after fending off a partial repeal of the LUC.

There is broad agreement that changes to the pension system were necessary. Government spending on old-age benefits accounts for more than 50% of social expenditures, which limits the fiscal resources available for other essential public services, including health care. The fiscal disruptions created by the pandemic and, more recently, the tax exemptions and hikes in benefits and wages introduced to offset the impact of soaring prices for food and fuel on living costs have brought an added sense of urgency to the task.

The Commission of Experts on Social Security (CESS) created in 2020 to draft proposed reforms submitted its recommendations in 2021, and a proposal to hike the official retirement age from 60 to 65 was particularly unpopular, and met with strong resistance from the FA, the PIT-CNT, and groups representing the interests of retirees. Action on the reforms was delayed amid the distractions created by the COVID-19 health crisis and the repeal referendum. The changes were approved by the Senate in a party-line vote in December 2022, but final approval by the National Assembly was delayed when the PC and the CA demanded tweaks designed to make the proposals less unpalatable to voters.

As approved, the pension reform will raise the official retirement age from 60 to 65, with a minimum of 30 years of contributions required to qualify for benefits. Other provisions include the elimination of "special pensions" via the gradual harmonization of contributions and benefits across occupations, and the calculation of the base benefit payment using an employees' 20 best years.

The fiscal impact will be significant but will not be felt until the initiation of increases in the retirement age beginning in 2034. Moreover, the positive effect on costs—which under the initial proposals projected a reduction from around 12% of GDP currently to 8%-9% of GDP—will be diluted by concessions made by Lacalle to secure the backing of the PC and the CA.

The final package provides for a more gradual increase in the retirement age (which will be raised by one-year annually through 2038), a reduction in the "best years" time frame for calculating benefits from the CESS's proposed 25 years, and revisions of widow and disability pensions. It also includes exceptions to the retirement age for workers with more than 30 years of contributions and those in hazardous or particularly strenuous work categories.

REFERENDUM PUSH ADDS TO ELECTION UNCERTAINTY

The various tweaks may have helped to dampen public opposition to the reforms, which was running above 50% according to a Cifra poll conducted in late March, with only 27% of respondents to the same survey expressing support for the proposals. The government has sought to soften the blow by agreeing to a reduction in the tax on social security transfers by 20% over the next three years and has otherwise sought to win public favor by proposing a cut in the personal income tax and tax relief for small businesses.

However, the PIT-CNT has already begun to lay the ground for a referendum on the social security reforms, an effort unanimously approved by the Electoral Court of Uruguay in late September. Organizers have until April 27 (the one-year anniversary of passage of the reforms) to collect the approximately 270,000 signatures (representing 25% of the electorate) required to put the issue to a national vote. If successful, repeal of the pension reforms could be on the ballot when voters go to the polls to elect a president and the members of the bicameral General Assembly in October 2024, a convergence that has the potential to affect the outcome on all fronts.

The most recent polling data indicates that support for the FA and the PN is in line with the results of the 2019 elections, at which they won 39% and 28% of the vote, respectively, while support for both the PC and the CA is running below their totals in 2019. Those numbers point to a strong possibility that the PC will seek to distance itself from Lacalle's government by the start of the primary season in mid-2024.

A break with the CA could come even sooner. The president's relationship with CA founder Guido Manini Ríos has deteriorated significantly since Lacalle demanded the resignation of Housing and Territorial

Planning Minister Irene Moreira Fernández—the wife of Manini Ríos—in May, following revelations of partisan favoritism in the assignment of public housing.

Disunity within the Multicolor Alliance will limit Lacalle's ability to make any major legislative moves that might bolster the PN's position ahead of the October 2024 vote. The polling trend suggests that, as in 2019, the FA's presidential candidate will finish first, but fall short of the outright majority required to avoid a runoff against the second-place finisher (most likely the nominee of the PN). However, the PN nominee will once again depend on the backing of the PC and the CA to obtain the votes needed to win the presidency and have any chance of claiming majority support in the legislature.

TRADE STRATEGY ENCOUNTERS OBSTACLES

One area where Lacalle might be able to make a big splash before his departure is the administration's effort to expand and diversify Uruguay's international trade ties, which is a key component of the PN's economic development strategy. The president enjoys significant freedom to conduct foreign relations without need for the approval of the legislature.

Unfortunately, his room for maneuver on trade is constrained by Uruguay's membership in the Southern Common Market (Mercosur), a customs union that prohibits its members, which also include Brazil, Argentina, and Paraguay, from pursuing bilateral trade deals. But for that restriction, Uruguay likely would have concluded FTAs with the US and the EU years ago, and Lacalle has made no secret of his frustration over the protracted delay in finalizing a 2019 agreement concluded with the EU and the resistance of his Mercosur partners to his pursuit of separate negotiations for a trade deal with China, among others.

The victory of Luíz Inacio "Lula" da Silva at last year's presidential election in Brazil initially seemed to be a positive development for Lacalle on both counts. Lula defeated Jair Bolsonaro, whose climate-change denialism was a key factor preventing the EU's ratification of the deal with Mercosur, and after campaigning on a pledge to renegotiate some of the terms, he has more recently expressed his desire to implement the existing agreements. The Brazilian leader also voiced support for relaxing the requirement that FTAs involving Mercosur members be pursued as a bloc.

However, some EU members, notably France, are still demanding changes to the 2019 agreement to strengthen environmental safeguards, prompting angry responses from leaders of the Mercosur states. Paraguayan President Santiago Peña has denounced the EU demands as tantamount to protectionism for European farmers worried about competition from Mercosur's agricultural and beef producers and has threatened that his government will abandon the deal if it is not finalized by early December.

As for negotiations between Uruguay and China, that has become less of a priority for Beijing since April, when Lula began pitching a bloc-wide deal to Chinese leaders. In any case, Uruguay's ambitions have continued to attract the scorn of Argentine President Alberto Fernández, who has suggested that Uruguay should perhaps leave bloc if it feels so constrained by the obligation to work with its partners for the collective benefit of all members.

Although Fernandez will be departing the scene following Argentina's upcoming presidential election (in which the immensely unpopular incumbent is not a participant), the current front-runner to replace him is Javier Milei, a populist libertarian whose numerous radical policy proposals include pledges to dissolve Mercosur and suspend Argentina's relations with Brazil. It is unclear Milei might actually do if he wins the presidency, but there is a high risk of a crisis within Mercosur if he is victorious—a prospect that likely explains Peña's deadline for cementing the FTA with the EU—that would have significant negative repercussions for economic stability in Uruguay.

DROUGHT WILL REINFORCE SLOWDOWN

The risks arising from the outbreak of war in Ukraine in early 2022 were at first roughly balanced in terms of the impact on Uruguay's economic outlook, as the inflationary effect of soaring prices for imported fuel prompted policy tightening that dampened domestic demand, offsetting the beneficial impact of higher global prices for agricultural exports. However, economic activity decelerated sharply in the second half of the year, as difficulties for the agricultural sector stemming from weaker external demand were compounded by a severe drought that also negatively affected the domestic power supply. The economy fell into recession in the fourth quarter of 2022, and year-and-year real growth turned slightly negative in the October-December quarter, holding the full-year rate of expansion to 4.9%.

The strength of the construction sector and services, notably tourism, helped to pull the economy out of recession in the first quarter of 2023, but economic activity contracted—in both nominal (quarter-on-quarter) and real (year-on-year) terms—in April-June 2023, reflecting the choking effect of high interest rates and the continuing drought-related damage to agricultural output and the domestic power supply. The steady easing of inflation has created room for interest-rate cuts that will invigorate economic activity in the second half of 2023, and recent rains have brightened the prospects for relief from the drought, although water levels remain far below capacity. Although the economy will return to growth in the coming quarters, annual real expansion will be held to just 1%.

The government's revised budget projections foresee the fiscal deficit widening to more than 3% of GDP this year (compared to a previous forecast of 2.6% of GDP), reflecting the impact of tax cuts unveiled in March, inflation-related increases in wages and pensions, and the negative fiscal effects of the drought, including reduced production at state-owned enterprises. The deterioration is not trivial, given the potential for further slippage ahead of the 2024 elections. However, the approval of the pension reforms earlier this year, although of little immediate fiscal import, will incline investors to give the government the benefit of the doubt.

A combination of aggressive monetary tightening, weakening domestic demand, and lower prices for staple imports has contributed to a steady easing of inflation over the past 12 months. Year-on-inflation has remained within the central bank's target range of 3%-6% since June, and the August reading of 4.1% was the lowest since 2005. The BCU has implemented three rate cuts since April, lowering the benchmark policy rate from 11.5% to 10%. The difficulties of the export sector have focused attention on the negative impact of the strong peso on the terms of trade, another factor that points to further rate cuts in the coming months.

The current account deficit widened to 3.7% of GDP in 2022, as soaring energy prices and capital imports related to the UPM paper mill project contributed to a narrowing of the goods surplus. A year-on-year contraction of exports, led by a steep decline in agricultural sales, will only partially be offset by stronger services exports, and a drought-related shortfall in domestic energy production will necessitate additional imports, negating the beneficial impact of lower energy prices. On balance, the current account deficit is forecast to remain large, but manageable, at about 3.5% of GDP in 2023.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk clams and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have "predictive power for both political risk insurance claims as well as political risk events measured by news coverage."

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
SEPTEMBER 2023 VERSUS OCTOBER 2022

RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
	Very Low Risk				
1	Norway	86.8	86.3	0.5	2
2	Switzerland	86.0	87.0	-1.0	1
3	Luxembourg	85.8	85.5	0.3	4
4	Denmark	84.8	83.8	1.0	6
5	Taiwan	84.5	83.8	0.8	6
6	Singapore	84.3	85.8	-1.5	3
7	Ireland	83.8	81.8	2.0	9
8	Saudi Arabia	82.5	85.5	-3.0	4
9	Brunei	81.5	79.5	2.0	15
10	Canada	80.8	81.3	-0.5	10
10	Iceland	80.8	80.0	0.8	14
10	Qatar	80.8	78.8	2.0	17

* C Harvey, et al., "Political Risk Spreads," Journal of International Business Studies, (2014), 471-493.

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	**COUNTRY**	**COMPOSITE RISK RATING 09/23**	**COMPOSITE RISK RATING 10/22**	**09/23 VERSUS 10/22**	**RANK IN 10/22**
13	Japan	80.5	75.8	4.8	25
13	Netherlands	80.5	79.3	1.3	16
13	United Arab Emirates	80.5	82.3	-1.8	8
16	Korea, Republic	80.3	77.0	3.3	23
17	Kuwait	80.0	80.8	-0.8	11
17	Sweden	80.0	80.3	-0.3	13
	Low Risk				
19	Australia	79.5	80.8	-1.3	11
19	Botswana	79.5	76.3	3.3	24
21	Germany	79.3	78.3	1.0	18
22	Finland	78.8	78.0	0.8	20
23	Hong Kong	78.0	73.8	4.3	36
24	New Zealand	77.8	74.8	3.0	32
25	Portugal	77.0	75.0	2.0	31
25	Trinidad & Tobago	77.0	77.5	-0.5	22
27	Austria	76.5	78.0	-1.5	20
27	Oman	76.5	78.3	-1.8	18
29	Czech Republic	76.0	75.5	0.5	28
30	Kazakhstan	75.5	75.5	0.0	28
31	Guyana	75.3	75.8	-0.5	25
32	Malaysia	75.0	73.0	2.0	40
33	Uzbekistan	74.8	72	2.5	43
34	Bahamas	74.5	70.8	3.8	55
34	Belgium	74.5	74.0	0.5	35
34	Italy	74.5	72.8	1.8	41
37	Israel	74.3	74.8	-0.5	32
38	Slovenia	74.0	72.3	1.8	43
38	United Kingdom	74.0	75.8	-1.8	25

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
40	Azerbaijan	73.8	73.3	0.5	38
40	Croatia	73.8	73.3	0.5	38
40	Libya	73.8	70.5	3.3	59
40	Malta	73.8	74.3	-0.5	34
40	Panama	73.8	73.5	0.3	37
40	Uruguay	73.8	75.5	-1.8	28
46	Costa Rica	73.0	72.0	1.0	45
47	Latvia	72.8	71.0	1.8	52
48	France	72.5	71.8	0.8	48
48	Jamaica	72.5	72.0	0.5	45
50	Chile	72.0	70.5	1.5	59
50	Dominican Republic	72.0	72.5	-0.5	42
50	Spain	72.0	72.0	0.0	45
53	Philippines	71.8	70.0	1.8	61
54	Bulgaria	71.5	70.0	1.5	61
54	Vietnam	71.5	70.8	0.8	55
56	Poland	71.3	70.8	0.5	55
57	Brazil	71.0	69.0	2.0	70
58	Hungary	70.8	71.3	-0.5	50
59	Thailand	70.5	64.3	6.3	91
60	Guatemala	70.3	71.0	-0.8	52
60	India	70.3	69.5	0.8	64
60	United States	70.3	71.5	-1.3	49
63	Cyprus	70.0	69.5	0.5	64
63	Gabon	70.0	66.0	4.0	85
Moderate Risk					
65	China, Peoples' Rep.	69.8	69.5	0.3	64
65	Lithuania	69.8	69.8	0.0	63

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
67	Greece	69.5	67.3	2.3	78
68	Bahrain	69.3	68.8	0.5	71
68	Estonia	69.3	70.8	-1.5	55
68	Indonesia	69.3	68.3	1.0	73
68	Papua New Guinea	69.3	69.3	0.0	67
72	Namibia	69.0	71.0	-2.0	52
73	Iraq	68.8	71.3	-2.5	50
74	Congo, Republic	68.5	63.8	4.8	96
74	Mexico	68.5	68.8	-0.3	71
74	Peru	68.5	68.0	0.5	75
77	Algeria	67.8	69.3	-1.5	67
78	Slovakia	67.5	68.3	-0.8	73
79	Romania	67.3	66.3	1.0	84
79	South Africa	67.3	66.8	0.5	81
81	Honduras	67.0	66.8	0.3	81
82	Gambia	66.8	65.8	1.0	88
82	Russia	66.8	66.0	0.8	85
84	El Salvador	66.5	63.5	3.0	98
84	Mongolia	66.5	65.5	1.0	89
84	Serbia	66.5	66.8	-0.3	81
87	Morocco	66.3	64.3	2.0	91
88	Ecuador	66.0	67.5	-1.5	76
88	Tanzania	66.0	64.8	1.3	90
90	Guinea-Bissau	65.3	62.5	2.8	103
90	Jordan	65.3	64.0	1.3	95
92	Paraguay	65.3	64.3	1.0	91
93	Albania	64.8	67.5	-2.8	76
94	Bolivia	64.5	66.0	-1.5	85

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
95	Nicaragua	63.8	62.8	1.0	100
96	Bangladesh	63.5	62.5	1.0	103
96	Cote d'Ivoire	63.5	61.0	2.5	107
96	Togo	63.5	62.8	0.8	100
99	Colombia	63.3	63.8	-0.5	96
100	Iran	63.0	67.0	-4.0	79
101	Madagascar	62.8	62.8	0.0	100
102	Angola	62.3	67.0	-4.8	79
103	Zambia	62.0	63.0	-1.0	99
104	Belarus	61.8	56.5	5.3	126
104	Cuba	61.8	69.3	-7.5	67
104	Ghana	61.8	59.0	2.8	114
107	Cameroon	61.5	59.8	1.8	110
108	Moldova	61.3	58.8	2.5	116
108	Ukraine	61.3	56.3	5.0	127
110	Armenia	61.0	60.5	0.5	108
111	Guinea	60.0	57.3	2.8	124
111	Mozambique	60.0	53.5	6.5	132
111	Uganda	60.0	59.3	0.8	112
High Risk					
114	Tunisia	59.8	61.3	-1.5	106
115	Burkina Faso	59.0	58.3	0.8	118
116	Suriname	58.8	59.0	-0.3	114
117	Senegal	58.5	58.0	0.5	122
118	Ethiopia	58.0	58.0	0.0	122
119	Mali	57.8	58.3	-0.5	118
120	Zimbabwe	57.5	61.5	-4.0	105
121	Congo, Dem. Republic	57.0	60.3	-3.3	109

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
121	Kenya	57.0	58.3	-1.3	118
121	Myanmar	57.0	55.8	1.3	128
124	Haiti	56.5	54.8	1.8	130
125	Argentina	56.3	64.3	-8.0	91
125	Sierra Leone	56.3	53.8	2.5	131
127	Egypt	56.0	59.3	-3.3	112
128	Yemen, Republic	55.8	48.3	7.5	138
129	Nigeria	55.5	59.8	-4.3	110
130	Turkey	55.3	55.8	-0.5	128
131	Liberia	55.0	58.3	-3.3	118
131	Venezuela	55.0	58.5	-3.5	117
133	Sri Lanka	54.5	48.5	6.0	137
134	Malawi	52.8	51.0	1.8	135
135	Somalia	51.8	52.0	-0.3	133
Very High Risk					
136	Korea, D.P.R.	49.3	51.0	-1.8	135
136	Pakistan	49.3	52.0	-2.8	133
138	Niger	46.8	56.8	-10.0	125
139	Syria	45.0	43.8	1.3	139
140	Sudan	44.8	43.0	1.8	140
141	Lebanon	35.0	41.5	-6.5	141